

## Message Text

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51

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TO AMEMBASSY SAN SALVADOR PRIORITY

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E.O. 11652: N/A

TAGS:

SUBJECT: TEXTILES - ARTICLE 3 ACTIONS

REF: (A) SMITH/WINSTANLEY TELECON JULY 25, 1975

--- (B) STATE 168785

GENEVA FOR PHELAN

1. AS WE UNDERSTAND IT, GOES RELUCTANCE TO SIGN AGREEMENT  
NEGOTIATED IN JANUARY BASED PRINCIPALLY ON MILLIAN THESIS  
THAT ARTICLE 3 UNILATERAL RESTRAINTS WOULD HAVE LESSER  
NEGATIVE IMPACT ON INDUSTRY GROWTH IN EL SALVADOR THAN  
ACCEPTANCE OF LEVELS AGREED UPON BY NEGOTIATORS. WE UNDER-  
STAND ALSO, THAT FOREIGN MINISTRY HAS ARGUED THAT GOES  
SHOULD SIGN AGREEMENT AND SEEK IMMEDIATE CONSULTATIONS TO  
MODIFY LEVELS OF CERTAIN CATEGORIES OF EXPORTS, BUT THAT  
MILLIAN HAS EFFECTIVELY BLOCKED ACCEPTANCE OF THAT ARGU-  
MENT BY GOES. ACCORDINGLY, IN PRESENTING ARTICLE 3 NOTE  
TO FOREIGN MINISTRY, YOU MAY WISH TO DRAW UPON FOLLOWING.

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2. THE USG REGRETS VERY MUCH THAT PROLONGED REFUSAL OF  
GOES TO SIGN AGREEMENT NEGOTIATED IN JANUARY HAS NOW MADE  
IT NECESSARY TO INITIATE ARTICLE 3 PROCEDURES WITH A VIEW  
TOWARD IMPOSING UNILATERAL RESTRAINT LEVELS IN CERTAIN  
CATEGORIES OF TEXTILE EXPORTS. THE CITA HAD CONSIDERED

FIVE CATEGORIES FOR POSSIBLE UNILATERAL RESTRAINT ACTION AT PRESENT TIME, BUT FINALLY DECIDED TO TAKE ACTION ONLY IN CATEGORIES 224 AND 229 AT THIS TIME. WE WOULD WANT GOES

TO UNDERSTAND , HOWEVER, THAT SIMILAR ACTION IN OTHER CATEGORIES MAY BE REQUIRED IN NEAR FUTURE. UNDER PARA 2 OF ARTICLE 3 AND PARA 3 OF ARTICLE 8 OF MFA U.S. HAS RESPONSIBILITY TO SEE THAT OTHER MFA COUNTRIES WITH WHOM USG HAS BILATERALS ARE NOT TREATED INEQUITABLY. IN ESSENCE THIS MEANS THAT ANY CATEGORY OF UNCONTROLLED TEXTILE IMPORTS FROM EL SALVADOR MAY BE SUBJECT TO ARTICLE 3 RESTRAINTS IF THAT SAME CATEGORY IS CONTROLLED BY U.S. WITH ANY OR ALL MFA COUNTRIES.

3. IT MAY APPEAR TO SOME ELEMENTS OF GOES THAT DIFFERENCE BETWEEN 229 LEVEL UNDER ARTICLE 3 AND 229 LEVEL NEGOTIATED IN JANUARY SUBSTANTIATES ARGUMENT THAT ARTICLE 3 ACTION LESS DAMAGING TO SALVADOR TEXTILE INDUSTRY THAN JANUARY AGREEMENT. HOWEVER, OUR EXPERIENCE IS THAT CONSEQUENCES OF ARTICLE 3 ACTION ARE CONSIDERABLY BROADER AND MORE SERIOUS THAN SIMPLE LIMITATION ON EXPORTS IN ONE OR MORE PARTICULAR CATEGORIES. IN PAST (AND MOST RECENTLY IN HAITI) WE HAVE OBSERVED THAT IMPOSITION OF ARTICLE 3 RESTRAINTS IN A PARTICULAR CATEGORY HAS COINCIDED WITH DIS-INCLINATION OF U.S. IMPORTERS TO PLACE FURTHER ORDERS IN ANY CATEGORY WITH COUNTRY INVOLVED. IMPORTERS APPARENTLY ARE UNWILLING TO ACCEPT RISK THAT OTHER CATEGORIES MIGHT BE PLACED UNDER ARTICLE 3 RESTRAINTS AS WELL, IN WHICH CASE THEY MIGHT NOT BE AHLE TO IMPORT THE GOODS (WHICH OFTEN ARE PREPAID) INTO THE U.S. AS A CONSEQUENCE, THE COUNTRY INVOLVED MAY EXPERIENCE A DROP IN FUTURE ORDERS OR EVEN SOME CANCELLATIONS OF EXISTING ORDERS. THE SAME CONSIDERATIONS, WE HAVE NOTED, MAY LEAD TO A FALL-OFF IN LONG RANGE INVESTMENT IN THE TEXTILE INDUSTRY IN THE COUNTRY INVOLVED. IN SUM, THE GENERAL UNCERTAINTY AROUSED BY ARTICLE 3 ACTION IN ANY CATEGORY MAY HAVE INDUSTRY-WIDE LIMITED OFFICIAL USE  
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REPERCUSSIONS. WE HOPE THAT THIS WILL NOT BE THE CASE IN EL SALVADOR AND ASSUME THAT THESE FACTORS HAVE BEEN TAKEN INTO ACCOUNT BY THE GOES IN OPTING FOR THE ARTICLE 3 ROUTE.

4. AS GOES HAS CHOSEN NOT TO SIGN BILATERAL AGREEMENT NEGOTIATED IN JANUARY, SITUATION REVERTS BACK TO STATUS QUO ANTE. USG CAN MAKE MINIMUM ADJUSTMENTS TO EXISTING COTTON BILATERAL BUT THERE CAN BE NO THIRTY-EIGHT PERCENT BONUS, NO INTER-FIBER FLEXIBILITY, NO ANNUAL GROWTH ALLOW-ANCE OTHER THAN MINIMUM SIX PERCENT FOR COTTON, NO SWING, CARRY-OVER OR CARRY FORWARD IN ANY RESTRAINED CATEGORIES EXCEPT FOR COTTON CATEGORIES COVERED BY EXISTING AGREEMENT.

5. EVEN WHILE INITIATING ARTICLE 3 ACTION USG REMAINS  
OPEN TO POSSIBILITY OF CONCLUDING BILATERAL AGREEMENT  
UNDER CIRCUMSTANCES OUTLINED IN REFTEL B OUR PREFERENCE

WOULD BE TO HAVE AGREEMENT SIGNED AND FOR GOES TO IMMEDIATELY REQUEST CONSULTATIONS UNDER ITS PROVISIONS. WE WOULD BE WILLING TO COMMIT OURSELVES NOW TO ENTERING INTO SUCH CONSULTATIONS WITH FORTHCOMING ATTITUDE. BUT, OF COURSE, WE COULD NOT GUARANTEE THE RESULTS DESIRED BY THE GOES NOR COULD WE LOOK UPON CONSULTATIONS AS RUSE UNDER WHICH MAJOR RENEGOTIATION OF AGREEMENT COULD TAKE PLACE. HOWEVER, WITH PRESENTATION DIPLOMATIC NOTE, SIXTY-DAY COUNTDOWN PERIOD CALLED FOR IN ARTICLE 3 WILL HAVE STARTED. INGERSOLL

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